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SUBJECT: Iranian Gas Deliveries to Sharjah Remain on Hold

CLASSIFIED BY: Justin Siberell, Consul General, U.S. Consulate  
General, Dubai; REASON: 1.4(B), (D)

¶1. (C) SUMMARY: Sharjah-based Crescent Petroleum executives tell Consul General that the company's project to purchase unprocessed sour gas from Iran's Salman gas field remains suspended pending Iranian completion of export facilities to deliver the gas. But they believe progress is underway, due to involvement by "European" companies (nfi) assisting to commission the Iranian export facilities. To add pressure on the National Iranian Oil Company (NIOC) to deliver the gas, Crescent has entered arbitration proceedings in The Hague to enforce its 25-year contract, signed in ¶2001. Meanwhile, the export deal remains a source of controversy in Iran, where MPs have demanded its annulment on grounds that the agreed price formula is disadvantageous to Iran. End Summary.

¶2. (C) Consul General met February 18 with Hamid and Majid Jafar, Chairman and Director General, respectively, of Crescent Petroleum, a Sharjah-based energy company. Hamid Jafar is an Iraqi-born, 30-year UAE resident who founded Crescent in the 1970's and maintains significant business interests in the UAE and the region, significantly in Egypt and the Kurdish region of Iraq through affiliated company Dana Gas, PJC. CG raised Crescent Petroleum's 2001 deal with the Iranian National Oil Company to purchase sour gas from Iran's Salman field in the context of increased USG concern over Iran's nuclear program and recent proposed legislation to target Iran's petroleum sector for enhanced sanctions.

¶3. (C) Jafar said that Crescent continued to wait on Iranian completion of export facilities at the Salman field that would enable delivery of the gas to Crescent's offshore facility adjacent to Sharjah's Mubarek field. A 30-inch diameter pipeline is in place to receive the Iranian gas once it is made available for export. Jafar said that, "in ordinary circumstances" completion of work required on the Iranian side would take "three to six months," but Crescent had been waiting since 2005, the original agreed-upon delivery date. In frustration at the continued delays, Crescent initiated arbitration proceedings in 2009 against NIOC in The Hague, an action Jafar said was intended as a "pressure tactic" designed to force NIOC to complete preparations and deliver the gas.

¶4. (C) Jafar said that Crescent had recently been encouraged by reported progress on the Iranian export facilities. This was due to work by "French and German" companies (nfi) to commission the export facility at the Salman field. However, press and oil journal reports indicate the deal remains controversial in Iran where the agreed price in the 2001 deal is viewed as well below the current market rate and therefore counter to Iran's national interest. The pricing controversy is likely behind Iran's delays

in completion of its technical work at the Salman field, Jafar said, though NIOC's project management capability has been severely eroded by years of isolation and internal corruption. (Comment: According to press reports, and likely the result of Crescent's arbitration filing, Reza Kasaeizadeh, Managing Director of the National Iranian Gas Export Company, said in early February that "other conditions" must also be factored in before Iran agrees to deliver the gas, including "the manner of export, sale and delivery", comments viewed as signaling Iran's continued reluctance to deliver the gas. End Comment.)

15. (C) When CG reminded Jafar of the possibility of exposure to sanctions measures for involvement with NIOC in the development of Iran's petroleum resources, he countered that purchasing Iranian gas was no different than lifting Iranian crude oil, which has not been viewed as violating U.S. Iran sanctions, at least to date. If the USG began sanctioning companies for purchases of Iranian crude oil, as opposed to investing in or developing Iran's oil and gas infrastructure, then Crescent might face some exposure, he said. But Crescent has invested "not one dollar" in Iran's oil and gas infrastructure, according to Jafar; it merely has a contract to purchase its (untreated) gas.

16. (C) Jafar said that Crescent has lined up three main purchasers for the Iranian gas if/when deliveries begin: the Sharjah Electricity and Water Authority (SEWA); the UAE Federal Electricity and Water Authority (FEWA); and an Omani petrochemical company

(nfi). The UAE's northern emirates suffer a severe gas shortage, which has resulted in seasonal power shortages and stunted industrial development. Apart from its domestic sources of gas, the UAE relies on gas supplies from Qatar by way of Abu Dhabi as part of the Dolphin project to supply much of its natural gas needs.

17. (C) Comment: Crescent and Sharjah continue to hold out hope on a deal that has eluded others previously, including Dubai in the 1990's when it failed to conclude a deal to purchase gas from Iran's Sirri field. Delivering regular supplies of gas to a neighboring state like the UAE might be viewed as a strategic decision meriting compromise on price, but the persistent criticism within Iran over the deal and the failure to complete it reveals an essential ambivalence in Iran that can at times work against the achievement of strategic goals. Abu Dhabi oil officials have expressed dismay to Emboffs at Sharjah's pursuit of a deal with the intractable Iranians for attempting to deal with a partner viewed as deeply unreliable. End Comment.

18. (C) Bio Note: Hamid Jafar retains strong links to his native Iraq beyond Dana Gas PJC's involvement in natural gas development in the Kurdish region. He is a financial supporter of Iraqiyya Candidate Iyad Allawi, and took a phone call from Allawi during the meeting with CG.

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